September 30, 1997

Dear Chief Executive Officers of National Banks and Bank Vendor Companies:

I am writing to express my concern about the results of our recent assessment of national bank and vendor preparations for the year 2000. While the assessment shows that most national banks and their vendors have begun to identify their computer reprogramming needs, a significant number have not done enough. In particular, our assessment shows that approximately one-third of the community banks need to step up their year 2000 compliance efforts. I am concerned about any banks at which senior management is not actively engaged in managing this process. Therefore, I would like to remind you of the interagency guidance that has been issued in this area and inform you of the OCC's supervisory strategy for monitoring the industry's year 2000 conversion efforts.

The guidelines in the FFIEC's Interagency Statement, sent to you on May 5, 1997, set forth a schedule that you should review. Under these guidelines, by now, all banks and vendors should have identified their systems that need attention. As a part of this risk assessment phase, each institution is expected to have developed an action plan to address its year 2000 transition, including banks that outsource all of their data-processing operations.

The plan should be tailored in accordance with the complexity of each institution's own year 2000 problems and must provide enough time for sufficient testing of converted systems and their connections with other systems. The plan must be thorough and should address all systems that are anticipated to pose problems -- not only data processing systems, but also building environmental systems such as elevators, vaults, and other systems controlled by imbedded microchips. For most community banks, this means dedicating sufficient time and resources to monitor compliance and testing activities of information service providers and suppliers of in-house hardware and software.

At this point, institutions should have started recoding their software. Under the interagency guidelines, programming changes for the most important systems need to be completed by year-end 1998 to allow enough time for coordinated testing of electronic transactions with other institutions during 1999.

The OCC has incorporated the assessment results, mentioned above, into our supervisory strategy. We have organized our year 2000 examination cycle to ensure that the first institutions we visit are those that appeared to be lagging behind in their preparations. These examinations will take place on-site by mid-1998 at every national bank, and also at vendor offices. Prior to our on-site examinations, OCC examiners will request a copy of your institution's year 2000 action plan. Bank vendors also need to take the steps necessary to meet the OCC's supervisory expectations to ensure their systems are ready for the year 2000.

I would also like you to know that Congress is closely monitoring the conversion efforts of federally regulated financial institutions, recognizing the industry's central role in the economy as well as the complexity of its data processing systems. During my recent testimony before the

Senate Banking Financial Institutions and Technology Subcommittee, subcommittee members expressed concern about the number of banks that have been slow to address the year 2000 problem, and about the effect this may have on bank customers. As a result, the Subcommittee asked me and other federal financial institution regulators to provide quarterly reports on the industry's compliance efforts. A copy of my testimony can be found on the OCC's Internet page http://www.occ.treas.gov or by calling OCC Communications at (202) 874-4700.

I encourage you to contact your Examiner-In-Charge or portfolio manager if you have any questions regarding the OCC's supervisory efforts on year 2000 preparedness. I also ask you to discuss with them, as early as possible, any major problems you encounter with your year 2000 projects.

Eugene A. Ludwig
Comptroller of the Currency

→